

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Schoolcraft	County Kalamazoo
Fiscal Year End February 28, 2007	Opinion Date May 21, 2007	Date Audit Report Submitted to State 6/25/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- | | YES | NO | Check each applicable box below. (See instructions for further detail.) |
|-----|-------------------------------------|--------------------------|---|
| 1. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary. |
| 2. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures. |
| 3. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury. |
| 4. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has adopted a budget for all required funds. |
| 5. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | A public hearing on the budget was held in accordance with State statute. |
| 6. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division. |
| 7. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit. |
| 8. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit only holds deposits/investments that comply with statutory requirements. |
| 9. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the <i>Bulletin for Audits of Local Units of Government in Michigan</i> , as revised (see Appendix H of Bulletin). |
| 10. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover. |
| 11. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit is free of repeated comments from previous years. |
| 12. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The audit opinion is UNQUALIFIED. |
| 13. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP). |
| 14. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The board or council approves all invoices prior to payment as required by charter or statute. |
| 15. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | To our knowledge, bank reconciliations that were reviewed were performed timely. |

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Yeo & Yeo, P.C.		Telephone Number 269-329-7007	
Street Address 710 E. Milham		City Kalamazoo	State Michigan
Zip 49002			
Authorizing CPA Signature <i>Carol A. Light, CPA</i>	Printed Name Carol A. Light, CPA	License Number 1101020083	

Village of Schoolcraft

Schoolcraft, Michigan

**Annual Financial Statements
and
Auditors' Report**

February 28, 2007

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Village of Schoolcraft
List of Elected and Appointed Officials
February 28, 2007

Village Council

Loren C. Warfield – President

Russel Barnes – Trustee

Scot Dailey – Trustee

Keith Gunnett – Trustee

Walter Mullin – Trustee

Carl Tackett – Trustee

James VanDyken – Trustee

Other Officers and Officials

Cheri M. Lutz – Village Manager

Faith C. Akert – Treasurer & Clerk

Independent Auditors' Report

Members of the Village Council
Village of Schoolcraft
Schoolcraft, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Village of Schoolcraft as of and for the year ended February 28, 2007, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Village of Schoolcraft as of February 28, 2007 and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Village of Schoolcraft's basic financial statements. The accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Yeo & Yeo, P.C.

May 21, 2007
Kalamazoo, Michigan

Village of Schoolcraft
Management's Discussion and Analysis
February 28, 2007

The management of the Village of Schoolcraft, Michigan ("the Village") provides this narrative overview and analysis of the financial activities of the Village for the fiscal year ended February 28, 2007 for the benefit of the readers of these financial statements. This management's discussion and analysis ("MD&A") is intended to assist the reader in focusing on significant financial issues and provide an overview of the Village's financial activity. The Village encourages the readers to consider the following information here in conjunction with the financial statements taken as a whole, which follow this section.

HIGHLIGHTS

Government-wide:

The assets of the Village exceeded its liabilities at the close of the fiscal year by \$3.3 million (reported as net assets), an increase of approximately \$45,000 from the previous year.

Fund Level:

As of the close of the fiscal year, the Village's governmental funds reported combined ending fund balances of \$1,316,963. Of this, \$1,313,929 is reported as unreserved and undesignated fund balance, and \$3,034 is designated for drug enforcement, which is a decrease of \$545. The proprietary funds reported a decrease in net assets of \$55,675 during the year.

Long Term Debt:

The Village's total long-term debt was \$460,860 at February 28, 2007. More detailed information regarding these activities and funds begins on page 4-19.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is an introduction to the Village's basic financial statements, which comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required supplementary information in addition to the basic financial statements.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Village as a whole and present a longer-term view of the Village's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

**Village of Schoolcraft
Management's Discussion and Analysis
February 28, 2007**

The Fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements by providing information about the Village's most significant funds. The fiduciary fund statements provide financial information about activities for which the Village acts solely as a trustee or agent for the benefit of those outside of the government.

FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE

The Village's combined net assets increased \$42,456 over the course of this fiscal year's operations to a total of \$3,305,497. The net assets of the governmental activities increased \$98,131 and business-type activities decreased \$55,675.

Net Assets as of February 28, 2007 and 2006

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Assets						
Current and other non-current assets	\$ 1,413,935	\$ 1,407,394	\$ 50,885	\$ 83,090	\$ 1,466,664	\$ 1,490,484
Capital assets	<u>694,766</u>	<u>585,747</u>	<u>1,689,041</u>	<u>1,743,619</u>	<u>2,383,807</u>	<u>2,329,366</u>
Total Assets	2,108,701	1,993,141	1,739,926	1,826,709	3,850,471	3,819,850
Liabilities						
Long-term liabilities	50,808	44,561	437,697	480,323	488,505	524,884
Other liabilities	<u>38,826</u>	<u>27,644</u>	<u>15,799</u>	<u>4,281</u>	<u>54,625</u>	<u>31,925</u>
Total Liabilities	89,634	72,205	453,496	484,604	543,130	556,809
Net Assets						
Invested in capital assets, net of related debt	592,886	558,867	1,255,061	1,266,832	1,847,947	1,825,699
Restricted	--	227	--	--	--	227
Unrestricted	<u>1,426,181</u>	<u>1,361,842</u>	<u>31,369</u>	<u>75,273</u>	<u>1,457,550</u>	<u>1,437,115</u>
Total Net Assets	\$ <u>2,019,067</u>	\$ <u>1,920,936</u>	\$ <u>1,286,430</u>	\$ <u>1,342,105</u>	\$ <u>3,305,497</u>	\$ <u>3,263,041</u>

The largest component of the Village's net assets reflects its investment in capital assets (e.g. land, buildings, equipment, infrastructure, and others), less any related debt outstanding that was needed to acquire or construct the assets. Unrestricted net assets are the next largest component. These represent resources that may be used at the Village's discretion, but often have limitations based upon policy action. The remaining portion, restricted net assets, is subject to external restrictions such as bond covenants, Village Charter, State legislation or Constitutional provision.

Village of Schoolcraft
Management's Discussion and Analysis
February 28, 2007

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the Village's net assets changed during the fiscal year.

Change in Net Assets For the Fiscal Years Ended February 28, 2007 and 2006

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Revenues						
Program Revenues						
Charges for Services	\$ 68,557	\$ 49,826	\$ 129,188	\$ 131,035	\$ 197,745	\$ 180,861
Operating Grants	5,761	12,416	--	3,409	5,761	15,825
General Revenues						
Taxes	691,624	681,705	--	--	691,624	681,705
State shared revenue	280,698	283,495	--	--	280,698	283,495
Unrestricted investment earnings	36,826	22,101	1,968	678	38,794	22,779
Miscellaneous	<u>15,394</u>	<u>17,159</u>	<u>3,292</u>	<u>10,944</u>	<u>18,686</u>	<u>28,103</u>
Total Revenues	1,098,860	1,066,702	134,448	146,066	1,233,308	1,212,768
Expenses						
General government	304,099	250,187	--	--	304,099	250,187
Public safety	342,182	334,815	--	--	342,182	334,815
Public works	204,411	151,603	--	--	204,411	151,603
Community and economic development	118,441	108,385	--	--	118,441	108,385
Recreation and culture	31,596	34,690	--	--	31,596	34,690
Water	<u>--</u>	<u>--</u>	<u>190,123</u>	<u>149,888</u>	<u>190,123</u>	<u>149,888</u>
Total Expenses	1,000,729	879,680	190,123	149,888	1,190,852	1,029,568
Increase (decrease) in net assets	98,131	187,022	(55,675)	(3,822)	42,456	183,200
Prior period adjustment	--	--	--	16,458	--	16,458
Beginning net assets	<u>1,920,936</u>	<u>1,733,914</u>	<u>1,342,105</u>	<u>1,329,469</u>	<u>3,263,041</u>	<u>3,063,383</u>
Ending net assets	\$ <u>2,019,067</u>	\$ <u>1,920,936</u>	\$ <u>1,286,430</u>	\$ <u>1,342,105</u>	\$ <u>3,305,497</u>	\$ <u>3,263,041</u>

**Village of Schoolcraft
Management's Discussion and Analysis
February 28, 2007**

Property taxes comprise 62.94% of Governmental Activities revenue. The Village's operating millage during the fiscal year was 14.9005 mills. In accordance with Charter and State Constitutional provisions, the Village may levy up to 17 mills for operation in fiscal year 2006-2007.

The Village has no income tax.

State shared revenue is collected by the State of Michigan and distributed to local governments by formula allocation of portions of the State sales tax and motor fuel and weight taxes. Fiscal year 2006-2007 receipts from the State of Michigan trended downward, attributed to discretionary reductions in revenue sharing payments by the State of Michigan.

Business type Activities

Net assets of the business-type activities, which includes the water fund, decreased by \$55,675 during the fiscal year.

FINANCIAL ANALYSIS OF THE VILLAGE'S FUNDS

As the Village completed the fiscal year, its governmental funds reported fund balances of \$1,316,963. Of this total amount, \$1,313,929 constitutes unreserved and undesignated fund balance, and \$3,034 is designated for drug enforcement, which is available for appropriation for the general purposes of the funds.

General Fund

The General Fund is the chief operating fund of the Village. At the end of fiscal year 2006-2007, the General Fund fund balance was \$473,300 all unreserved with \$3,034 designated for drug enforcement, available for appropriation for general purposes. The fund balance increased by \$8,725 from the previous fiscal year.

General Fund Budgetary Highlights

Administrative actions were taken to keep operating costs within budget. Unbudgeted expenses included professional services for the feasibility study regarding use of the fire station for a municipal building.

Property tax revenue (including penalties and interest) increased \$26,266 or 4.8% in fiscal year 2006-2007. This is attributed to usual increases in property values. The State reduced revenue sharing payments by \$1,338 in fiscal year 2006-2007. This resulted from State actions in response to the statewide economic slowdown.

**Village of Schoolcraft
Management's Discussion and Analysis
February 28, 2007**

During the fiscal year, the Village amended the budget to transfer funds among activities in the General Fund. Overall, expenditures for Village departments were \$10,411 over budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets: At the end of the fiscal year 2006-2007, the Village had invested \$2,383,807, net of accumulated depreciation, in a broad range of capital assets (see the table below). Total depreciation charges for this fiscal year were \$130,446.

**Capital Assets as of February 28, 2007 and 2006
(net of depreciation)**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Land	\$ 75,000	\$ --	\$ --	\$ --	\$ 75,000	\$ --
Infrastructure	214,786	135,869	--	--	214,786	135,869
Buildings, additions and improvements	219,211	230,205	789,083	811,856	1,008,294	1,042,061
Machinery and equipment	89,372	111,828	2,501	2,918	91,873	114,746
Vehicles	96,397	107,845	--	--	96,397	107,845
Water system	--	--	<u>897,457</u>	<u>928,845</u>	<u>897,457</u>	<u>928,845</u>
Total	\$ <u>694,766</u>	\$ <u>585,747</u>	\$ <u>1,689,041</u>	\$ <u>1,743,619</u>	\$ <u>2,383,807</u>	\$ <u>2,329,366</u>

This year's major additions included:

Land	\$ 75,000
Trac Vac Unit	2,395
2006 Street Resurfacing – Major Street	47,760
2006 Street Resurfacing – Local Street	30,329
Leaching Basin	8,810
Cruiser Video Equipment	9,543
Meters-Water Fund	5,098
Meters/Supplies- Water fund	5,952

**Village of Schoolcraft
Management's Discussion and Analysis
February 28, 2007**

Debt: At the end of the fiscal year 2006-2007, the Village had a total of \$460,860 indebtedness (see table below).

Year Ending December 31,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2008	\$ 7,680	\$ -	\$ 44,707	\$ 17,993
2009	3,840	-	46,691	16,009
2010	3,840	-	48,763	13,937
2011	3,840	-	50,926	11,774
2012	3,840	-	55,547	7,153
2013-2016	<u>3,840</u>	<u>-</u>	<u>187,346</u>	<u>16,431</u>
	<u>\$ 26,880</u>	<u>\$ -</u>	<u>\$ 433,980</u>	<u>\$ 83,297</u>

ECONOMIC CONDITION AND OUTLOOK

State multi-year tax reduction legislation curtailed the State of Michigan's revenue collections. In May 2001 it became apparent that State revenues were declining and State Revenue Sharing payments to local government were cut to meet reduced revenue projections. Such reductions, and reductions in interest earnings on surplus funds, due to declines in interest rates, negatively impacted recent fiscal years, necessitating managerial constraints on operating expenditures.

Continuing expected reductions in State Revenue Sharing and the low interest rate environment, yet continuing inflationary pressure of municipal materials, supplies and equipment, dictated prudent expenditures for fiscal year 2006-2007, and a continuance of administrative cost containment measures.

CONTACTING THE VILLAGE'S FINANCIAL ADMINISTRATION

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Village's finances and to demonstrate the Village's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Village Treasurer at (269) 679-4304.

Village of Schoolcraft
Statement of Net Assets
February 28, 2007

	Primary Government			Component
	Governmental Activities	Business-type Activities	Total	Unit
Assets				
Cash and cash equivalents	\$ 1,162,825	\$ 117,330	\$ 1,280,155	\$ 104,118
Receivables				
Taxes	82,127	-	82,127	1,418
Customers	6,539	33,265	39,804	43
Due from other units of government	45,071	-	45,071	-
Internal balances	99,710	(99,710)	-	-
Due from component unit	17,663	-	17,663	-
Land	75,000	-	75,000	-
Capital assets, net	<u>619,766</u>	<u>1,689,041</u>	<u>2,308,807</u>	<u>1,579</u>
 Total assets	 <u>2,108,701</u>	 <u>1,739,926</u>	 <u>3,848,627</u>	 <u>107,158</u>
Liabilities				
Accounts payable	20,078	15,799	35,877	720
Accrued and other liabilities	18,748	-	18,748	-
Due to component unit	-	-	-	17,663
Noncurrent liabilities				
Due within one year	7,680	44,708	52,388	-
Due in more than one year	<u>43,128</u>	<u>392,989</u>	<u>436,117</u>	<u>-</u>
 Total liabilities	 <u>89,634</u>	 <u>453,496</u>	 <u>543,130</u>	 <u>18,383</u>
Net Assets				
Invested in capital assets, net of related debt	592,886	1,255,061	1,847,947	1,579
Unrestricted	<u>1,426,181</u>	<u>31,369</u>	<u>1,457,550</u>	<u>87,196</u>
 Total net assets	 <u>\$ 2,019,067</u>	 <u>\$ 1,286,430</u>	 <u>\$ 3,305,497</u>	 <u>\$ 88,775</u>

See Accompanying Notes to Financial Statements

**Village of Schoolcraft
Statement of Activities
For the Year Ended February 28, 2007**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets			Component Unit
		Charges for Services	Operating Grants and Contributions	Primary Government			
				Governmental Activities	Business-type Activities	Total	
Primary government							
Governmental activities							
General government	\$ 304,319	\$ 7,069	\$ 951	\$ (296,299)	\$ -	\$ (296,299)	\$ -
Public safety	342,182	32,082	-	(310,100)	-	(310,100)	-
Public works	204,191	-	-	(204,191)	-	(204,191)	-
Community and economic development	118,441	10,303	4,810	(103,328)	-	(103,328)	-
Recreation and culture	31,596	19,103	-	(12,493)	-	(12,493)	-
Total governmental activities	1,000,729	68,557	5,761	(926,411)	-	(926,411)	-
Business-type activities							
Water	190,123	129,188	-	-	(60,935)	(60,935)	-
Total business-type activities	190,123	129,188	-	-	(60,935)	(60,935)	-
Total primary government	\$ 1,190,852	\$ 197,745	\$ 5,761	(926,411)	(60,935)	(987,346)	-
Component unit							
Downtown Development Authority	\$ 9,293	\$ -	\$ 61,750				52,457
General revenues							
Property taxes				691,624	-	691,624	1,345
State shared revenue				280,698	-	280,698	-
Unrestricted investment earnings				36,826	1,968	38,794	1,793
Miscellaneous				15,394	3,292	18,686	-
Total general revenues				1,024,542	5,260	1,029,802	3,138
Change in net assets				98,131	(55,675)	42,456	55,595
Net assets - beginning of year				1,920,936	1,342,105	3,263,041	33,180
Net assets - end of year				\$ 2,019,067	\$ 1,286,430	\$ 3,305,497	\$ 88,775

See Accompanying Notes to Financial Statements

**Village of Schoolcraft
Governmental Funds
Balance Sheet
February 28, 2007**

		Special Revenue Funds			Total Governmental Funds
	General	Major Street	Local Street	Library	
Assets					
Cash and cash equivalents	\$ 263,209	\$ 495,753	\$ 154,375	\$ 249,488	\$ 1,162,825
Receivables					
Taxes	40,518	-	-	41,609	82,127
Customers	1,116	4,500	-	923	6,539
Due from other units of government	22,180	17,413	5,478	-	45,071
Due from other funds	264,628	-	-	4,512	269,140
Due from component unit	17,663	-	-	-	17,663
	<u>609,314</u>	<u>517,666</u>	<u>159,853</u>	<u>296,532</u>	<u>1,583,365</u>
Total assets	\$	\$	\$	\$	\$
Liabilities					
Accounts payable	17,144	1,509	-	1,425	\$ 20,078
Accrued and other liabilities	13,998	-	-	4,750	18,748
Due to other funds	46,726	36,999	85,705	-	169,430
Deferred revenue	58,146	-	-	-	58,146
Total liabilities	<u>136,014</u>	<u>38,508</u>	<u>85,705</u>	<u>6,175</u>	<u>266,402</u>
Fund Balances					
Unreserved					
Designated for drug enforcement	3,034	-	-	-	3,034
Unreserved, reported in:					
General fund	470,266	-	-	-	470,266
Special revenue funds	-	479,158	74,148	290,357	843,663
Total fund balances	<u>473,300</u>	<u>479,158</u>	<u>74,148</u>	<u>290,357</u>	<u>1,316,963</u>
	<u>609,314</u>	<u>517,666</u>	<u>159,853</u>	<u>296,532</u>	<u>1,583,365</u>
Total liabilities and fund balances	\$	\$	\$	\$	\$

See Accompanying Notes to Financial Statements

**Village of Schoolcraft
Governmental Funds
Reconciliation of Fund Balances of Governmental Funds
to Net Assets of Governmental Activities
February 28, 2007**

Total fund balances for governmental funds	\$ 1,316,963
Total net assets for governmental activities in the statement of net assets is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	694,766
Certain receivables are not available to pay for current period expenditures and, therefore are deferred in the funds.	58,146
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	
Compensated absences	(23,928)
Long-term debt	<u>(26,880)</u>
Net assets of governmental activities	<u><u>\$ 2,019,067</u></u>

Village of Schoolcraft
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended February 28, 2007

	Special Revenue Funds				Total Governmental Funds
	General	Major Street	Local Street	Library	
Revenues					
Taxes	\$ 572,464	\$ -	\$ -	\$ 127,212	\$ 699,676
Licenses and permits	10,567	-	-	-	10,567
State revenue sharing	153,630	96,437	30,338	-	280,405
Other state grants	951	-	-	2,789	3,740
Charges for services	51,342	-	-	1,172	52,514
Fines and forfeitures	-	-	-	13,731	13,731
Interest income	6,691	20,395	1,922	7,818	36,826
Rental income	6,000	-	-	-	6,000
Other revenue	191	-	-	2,969	3,160
Total revenues	<u>801,836</u>	<u>116,832</u>	<u>32,260</u>	<u>155,691</u>	<u>1,106,619</u>
Expenditures					
Current					
General government	321,068	-	-	-	321,068
Public safety	326,123	-	-	-	326,123
Public works	81,486	122,639	69,689	-	273,814
Community and economic development	-	-	-	118,062	118,062
Recreation and culture	31,596	-	-	-	31,596
Capital outlay	32,838	-	-	-	32,838
Total expenditures	<u>793,111</u>	<u>122,639</u>	<u>69,689</u>	<u>118,062</u>	<u>1,103,501</u>
Excess (deficiency) of revenues over expenditures	<u>8,725</u>	<u>(5,807)</u>	<u>(37,429)</u>	<u>37,629</u>	<u>3,118</u>

Village of Schoolcraft
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended February 28, 2007

	Special Revenue Funds				Total Governmental Funds
	General	Major Street	Local Street	Library	
Other financing sources (uses)					
Transfers in	\$ -	\$ -	\$ 17,396	\$ -	\$ 17,396
Transfers out	-	(17,396)	-	-	(17,396)
Total other financing sources and uses	-	(17,396)	17,396	-	-
Net change in fund balance	8,725	(23,203)	(20,033)	37,629	3,118
Fund balance - beginning of year	464,575	502,361	94,181	252,728	1,313,845
Fund balance - end of year	<u>\$ 473,300</u>	<u>\$ 479,158</u>	<u>\$ 74,148</u>	<u>\$ 290,357</u>	<u>\$ 1,316,963</u>

Village of Schoolcraft
Governmental Funds
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended February 28, 2007

Net change in fund balances - Total governmental funds	\$ 3,118
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Total change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense	(64,818)
Capital outlay	173,837

Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.

State shared revenue	293
Property taxes	(8,052)

Expenses are recorded when incurred in the statement of activities

Compensated absences	<u>(6,247)</u>
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Change in net assets of governmental activities	<u>\$ 98,131</u>
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Village of Schoolcraft
Proprietary Funds
Statement of Net Assets
February 28, 2007

	<u>Enterprise Funds</u>
	<u>Water</u>
Assets	
Current assets	
Cash and cash equivalents	\$ 117,330
Receivables	
Customers	33,265
Due from other funds	68,494
Total current assets	<u>219,089</u>
Noncurrent assets	
Capital assets, net	<u>1,689,041</u>
Total assets	<u>1,908,130</u>
Liabilities	
Current liabilities	
Accounts payable	15,799
Due to other funds	168,204
Current portion of noncurrent liabilities	44,708
Total current liabilities	<u>228,711</u>
Noncurrent liabilities	
Compensated absences	3,717
Long-term debt net of current portion	389,272
Total noncurrent liabilities	<u>392,989</u>
Total liabilities	<u>621,700</u>
Net Assets	
Invested in capital assets, net of related debt	1,255,061
Unrestricted	<u>31,369</u>
Total net assets	<u>\$ 1,286,430</u>

See Accompanying Notes to Financial Statements

Village of Schoolcraft
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the Year Ended February 28, 2007

	<u>Enterprise Funds</u>
	<u>Water</u>
Operating revenue	
Customer fees	\$ 131,030
Connection fees	1,133
Other revenue	317
Total operating revenue	<u>132,480</u>
Operating expenses	
Personnel services	48,286
Supplies	16,552
Contractual services	22,941
Utilities	6,480
Repairs and maintenance	7,869
Other expenses	2,474
Depreciation	65,628
Total operating expenses	<u>170,230</u>
Operating income (loss)	<u>(37,750)</u>
Nonoperating revenue (expenses)	
Interest income	1,968
Interest expense	(19,893)
Total nonoperating revenues (expenses)	<u>(17,925)</u>
Change in net assets	<u>(55,675)</u>
Net assets - beginning of year	<u>1,342,105</u>
Net assets - end of year	<u>\$ 1,286,430</u>

Village of Schoolcraft
Proprietary Funds
Statement of Cash Flows
For the Year Ended February 28, 2007

	<u>Enterprise Funds</u>
	<u>Water</u>
Cash flows from operating activities	
Receipts from customers	\$ 127,142
Receipts from other funds	(306)
Payments to other funds	(44,346)
Payments to suppliers	(44,617)
Payments to employees	<u>(48,286)</u>
Net cash provided (used) by operating activities	<u>(10,413)</u>
Cash flows from capital and related financing activities	
Purchases/construction of capital assets	(11,050)
Principal and interest paid on long-term debt	<u>(62,700)</u>
Net cash provided (used) by capital and related financing activities	<u>(73,750)</u>
Cash flows from investing activities	
Interest received	<u>1,968</u>
Net change in cash and cash equivalents	(82,195)
Cash and cash equivalents - beginning of year	<u>199,525</u>
Cash and cash equivalents - end of year	<u><u>\$ 117,330</u></u>

**Village of Schoolcraft
Proprietary Funds
Statement of Cash Flows
For the Year Ended February 28, 2007**

	<u>Enterprise Funds</u>
	<u>Water</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities	
Operating income (loss)	\$ (37,750)
Adjustments to reconcile operating income to net cash from operating activities	
Depreciation and amortization expense	65,628
Changes in assets and liabilities	
Receivables (net)	(5,338)
Due from other funds	(306)
Accounts payable	11,518
Accrued and other liabilities	181
Due to other funds	<u>(44,346)</u>
Net cash provided (used) by operating activities	<u>\$ (10,413)</u>

Village of Schoolcraft
Notes to Financial Statements
February 28, 2007

Note 1 - Summary of Significant Accounting Policies

Reporting entity

Village of Schoolcraft is governed by an elected seven-member Council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government (see discussion below for description).

Discretely Presented Component Units – The component unit column in the entity wide financial statements include the financial data of the Village's Downtown Development Authority. This unit is reported in a separate column to emphasize that it is legally separate from the Village. The members of the Governing Board of the Downtown Development Authority are appointed by the Village Council. The budgets and expenditures of the Downtown Development Authority must be approved by the Village Council. The Village also has the ability to significantly influence operations of the Downtown Development Authority. The Downtown Development Authority does not issue any other form of financial statements except as contained in the Village of Schoolcraft annual financial statements.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. *Government activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary*

government is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Village of Schoolcraft
Notes to Financial Statements
February 28, 2007

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major and Local Street Funds account for the maintenance and improvement activities for streets designated as "major" and "local" within the Village. Funding is primarily through state shared gas and weight taxes.

The Library Fund accounts for the costs of maintaining a library.

The government reports the following major proprietary funds:

The Water Fund accounts for the activities of the water distribution system.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Village of Schoolcraft
Notes to Financial Statements
February 28, 2007

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the sewer and water funds and the internal service funds are charges to customers for sales and services. The government also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for sewer and water funds and the internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, liabilities, and net assets or equity

Deposits and investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value based on quoted market price. Certificate of deposits are stated at cost which approximates fair value.

Receivables and payables – In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangement outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

The 2006 taxable valuation of the government totaled \$38,164,634, on which ad valorem taxes consisted of 14.9005 mills for operating purposes. This resulted in \$548,672 for operating expenses, exclusive of any Michigan Tax Tribunal or Board of Review adjustments.

Capital assets – Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost, if purchased or constructed.

The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the government values these capital assets at the estimated fair value of the item at the date of its donation.

Village of Schoolcraft
Notes to Financial Statements
February 28, 2007

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building improvements	15 to 30 years
Water and sewer lines	25 to 50 years
Vehicles	3 to 10 years
Office equipment computer equipment	5 to 7 years
Computer equipment	3 to 7 years

Compensated absences – It is the Village's policy to permit employees to accumulate earned but unused vacation and personal benefits. All vacation pay and personal time is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-term obligations – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for

a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative data

Comparative data is not included in the government's financial statements.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary information

The government is subject to the budgetary control requirements of the Uniform Budgeting Act (P.A. 621 of 1978, as amended). Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

Prior to year-end, the Village Manager submits to the Village Council a proposed operating budget for the fiscal year commencing the following March 1. Public hearings are obtained to obtain taxpayer comments and the budget is legally enacted through passage of an ordinance prior to March 1.

The budget document presents information by fund, activity, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. The Village Manager is authorized to transfer budgeted amounts between line items within an activity; however, any revisions that alter the total expenditures of an activity must be approved by the Village Council.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent when goods are received or services rendered.

Village of Schoolcraft
Notes to Financial Statements
February 28, 2007

Excess of expenditures over appropriations

Significant expenditure overruns were as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund	\$ 782,700	\$ 793,111	\$ 10,411

Note 3 - Deposits and Investments

At yearend the government's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Cash and Cash Equivalents</u>
Governmental activities	\$ 1,162,825
Business-type activities	<u>117,330</u>
Total primary government	1,280,155
Component unit	<u>104,118</u>
Total	<u>\$ 1,384,273</u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>	<u>Component Unit</u>
Bank deposits (checking and savings accounts, money markets and certificates of deposit)	\$ 1,279,725	\$ 104,118
Petty cash and cash on hand	<u>430</u>	<u>-</u>
	<u>\$ 1,280,155</u>	<u>\$ 104,118</u>

Interest rate risk – In accordance with its investment policy, the government manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than 60 months.

Credit risk – State statutes authorize the government to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other obligations of the United States, or any agency or instrumentality of the United States. United States government or federal agency obligations; repurchase agreements; bankers acceptance of United States Banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The investment policy adopted by the government authorizes investment in bonds and securities of the United States government and bank accounts and certificates of deposit, but not the remainder of State statutory authority as listed above.

Concentration of credit risk – The government has no policy that would limit the amount that may be issued in any one issuer.

Custodial credit risk - deposits – In the case of deposits, this is the risk that in the event of bank failure, the government's deposits may not be returned to it. The government does not have a policy for custodial credit risk. As of year end, \$ 1,028,750 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Village of Schoolcraft
Notes to Financial Statements
February 28, 2007

Note 4 - Receivables and Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>
Primary government	
State shared revenue	\$ 22,179
Property taxes	<u>35,967</u>
	<u>\$ 58,146</u>
Component unit	
Property taxes	<u>\$ 730</u>

Note 5 - Capital Assets

Capital assets activity of the primary government for the current year was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ -	\$ 75,000	\$ -	\$ 75,000
Capital assets being depreciated				
Infrastructure	\$ 138,537	\$ 86,899	\$ -	\$ 225,436
Buildings, additions and improvements	496,686	-	-	496,686
Machinery and equipment	383,421	2,395	-	385,816
Vehicles	237,322	9,543	-	246,865
Total capital assets being depreciated	<u>1,255,966</u>	<u>98,837</u>	<u>-</u>	<u>1,354,803</u>
Less accumulated depreciation for				
Infrastructure	2,668	7,982	-	10,650
Buildings, additions and improvements	266,481	10,994	-	277,475
Machinery and equipment	271,593	24,851	-	296,444
Vehicles	129,477	20,991	-	150,468
Total accumulated depreciation	<u>670,219</u>	<u>64,818</u>	<u>-</u>	<u>735,037</u>
Net capital assets being depreciated	<u>585,747</u>	<u>34,019</u>	<u>-</u>	<u>619,766</u>
Governmental activities capital assets, net	<u>\$ 585,747</u>	<u>\$ 109,019</u>	<u>\$ -</u>	<u>\$ 694,766</u>

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities				
Capital assets being depreciated				
Buildings, additions and improvements	1,138,648	-	-	1,138,648
Machinery and equipment	13,249	-	-	13,249
Water system	1,230,136	11,050	-	1,241,186
Total capital assets being depreciated	<u>2,382,033</u>	<u>11,050</u>	<u>-</u>	<u>2,393,083</u>
Less accumulated depreciation for				
Buildings, additions and improvements	326,792	22,773	-	349,565
Machinery and equipment	10,332	416	-	10,748
Water system	301,292	42,437	-	343,729
Total accumulated depreciation	<u>638,416</u>	<u>65,626</u>	<u>-</u>	<u>704,042</u>
Net capital assets being depreciated	<u>1,743,617</u>	<u>(54,576)</u>	<u>-</u>	<u>1,689,041</u>
Business-type capital assets, net	<u>\$ 1,743,617</u>	<u>\$ (54,576)</u>	<u>\$ -</u>	<u>\$ 1,689,041</u>

Capital assets activity of the component unit for the current year was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Component Unit				
Capital assets being depreciated				
Machinery and equipment	\$ 1,804	\$ -	\$ -	\$ 1,804
Less accumulated depreciation for				
Machinery and equipment	45	180	-	225
Net capital assets being depreciated	<u>1,759</u>	<u>(180)</u>	<u>-</u>	<u>1,579</u>
Component unit capital assets, net	<u>\$ 1,759</u>	<u>\$ (180)</u>	<u>\$ -</u>	<u>\$ 1,579</u>

Village of Schoolcraft
Notes to Financial Statements
February 28, 2007

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities

General government	\$ 21,561
Public safety	25,602
Public works	17,276
Community and economic development	<u>379</u>
Total governmental activities	<u>64,818</u>

Business-type activities

Water	<u>65,628</u>
Total primary government	<u>\$ 130,446</u>

Note 6 - Interfund Receivables, Payables, Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due from/to other funds		
General	Local Street	\$ 68,237
	Building	8,697
	Major Street	19,530
	Water	168,204
	General	4,512
Library	General	33,517
Water	Major Street	17,469
	Local Street	<u>17,468</u>
		<u>\$ 337,634</u>

The outstanding balances between funds result mainly from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

Due to/from primary government and component units

Due to/from component units

Receivable Fund	Payable Fund	Amount
General	DDA	<u>\$ 17,663</u>

The details for interfund transfers are as follows:

Funds Transferred From	Funds Transferred To	Amount
Major Street	Local Street	<u>\$ 17,396</u>

Transfers are used to move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs.

Village of Schoolcraft
Notes to Financial Statements
February 28, 2007

Note 7 - Long-Term Debt

The government issues bonds to provide for the acquisition and construction of major capital projects. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Installment purchase agreements are also general obligations of the government. Other long-term obligations include compensated absences. Compensated absences are typically liquidated with funds from the General Fund and Water Fund.

Long-term obligation activity is summarized as follows:

	Amount of Issue	Maturity Date	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities									
Bonds and notes payable									
Installment purchase agreements									
Police radios	\$ 30,720	1/31/13	N/A	\$ 3,840	\$ 26,880	\$ -	\$ -	\$ 26,880	\$ 7,680
Compensated absences					18,669	5,259	-	23,928	-
Total governmental activities					<u>\$ 45,549</u>	<u>\$ 5,259</u>	<u>\$ -</u>	<u>\$ 50,808</u>	<u>\$ 7,680</u>
Business-type activities									
Bonds and notes payable									
Installment purchase agreements									
Grand Street water main	\$ 507,694	5/24/15	4.35%	\$3,497 - \$5,206	\$ 476,787	\$ -	\$ 42,807	\$ 433,980	\$ 44,708
Compensated absences					3,536	181	-	3,717	-
Total business-type activities					<u>\$ 480,323</u>	<u>\$ 181</u>	<u>\$ 42,807</u>	<u>\$ 437,697</u>	<u>\$ 44,708</u>

The Village has the option to prepay its obligations under the Grand Street water main installment purchase agreement on any installment payment due date. The prepayment would include all principal and interest payments then accrued and payable plus the termination value indicated in the principal and interest payment schedule.

The Village paid \$19,893 in interest expense for the year.

Village of Schoolcraft
Notes to Financial Statements
February 28, 2007

Annual debt service requirements to maturity for the above obligations are as follows:

Year Ending December 31,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2008	\$ 7,680	\$ -	\$ 44,707	\$ 17,993
2009	3,840	-	46,691	16,009
2010	3,840	-	48,763	13,937
2011	3,840	-	50,926	11,774
2012	3,840	-	55,547	7,153
2013-2016	3,840	-	187,346	16,431
	<u>\$ 26,880</u>	<u>\$ -</u>	<u>\$ 433,980</u>	<u>\$ 83,297</u>

Note 8 - Risk Management

The government is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The government has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 9 - Employee Retirement and Benefit Systems

Defined contribution pension plan

The Village provides pension benefits for all its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan, plus investment earnings. The plan permits employees to defer a portion of their current compensation until the employee terminates employment wages to the plan, but total contributions for each employee (and

interest allocated to the employee's account) are immediately 100% vested. The Village is not a trustee of the plan, nor is the Village responsible for investment management of plan assets.

The Village and covered employees made contributions of \$11,491 and \$13,893 respectively, for the fiscal year 2006-2007 for a total of \$25,384.

Note 10 - Joint Ventures

The Village is a member of the South Kalamazoo County Fire Authority. The Authority was established to jointly provide fire protection services within the member municipalities in southern Kalamazoo County, Michigan. The Authority is comprised of the Villages of Schoolcraft and Vicksburg, and the Townships of Brady, Prairie Ronde, Schoolcraft, and Wakeshma. During the current year, the Village contributed \$46,689 for its operation. The Village also rents the fire hall to the Authority. Rental income totaled \$6,000 for the year ended February 28, 2007.

The South Kalamazoo County Fire Authority receives an annual audit of its financial statements by an independent certified public accountant. A copy of the annual audit is kept on file at the Village of Schoolcraft office, and can be reviewed upon request.

Note 11 - Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

Village of Schoolcraft
Notes to Financial Statements
February 28, 2007

Note 12 - Construction Code Act

A summary of construction code enforcement transactions for the year ended February 28, 2007 is as follows:

Permit revenue	\$ 6,669
Permit expenditures	<u>(9,020)</u>
Deficiency of revenue over expenditures	\$ <u><u>(2,351)</u></u>

Village of Schoolcraft
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
For the Year Ended February 28, 2007

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Taxes				
Property taxes	\$ 552,000	\$ 552,000	\$ 569,912	\$ 17,912
Penalties and interest	300	300	2,195	1,895
Administration fee	-	-	357	357
Licenses and permits	1,500	1,500	10,567	9,067
State revenue sharing	157,500	157,500	153,630	(3,870)
State grants	900	900	951	51
Charges for services	38,250	38,250	51,342	13,092
Interest income	2,600	2,600	6,691	4,091
Rental income	29,500	29,500	6,000	(23,500)
Other revenue	150	150	191	41
Total revenues	<u>782,700</u>	<u>782,700</u>	<u>801,836</u>	<u>19,136</u>
Expenditures				
General government				
Village council	98,670	98,670	167,460	68,790
Manager	59,410	59,410	56,752	(2,658)
Clerk	20,390	20,390	19,740	(650)
Treasurer	23,460	25,960	26,021	61
Buildings and grounds	57,630	49,980	51,095	1,115
Total general government	<u>259,560</u>	<u>254,410</u>	<u>321,068</u>	<u>66,658</u>

Village of Schoolcraft
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
For the Year Ended February 28, 2007

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Public safety				
Police	301,590	301,590	279,434	(22,156)
Fire department	43,000	46,700	46,689	(11)
Total public safety	344,590	348,290	326,123	(22,167)
Public works				
Department of public works	58,100	58,100	52,342	(5,758)
Sidewalks	34,400	34,400	19,824	(14,576)
Refuse collection	8,900	9,300	9,320	20
Total public works	101,400	101,800	81,486	(20,314)
Recreation and culture				
Parks and recreation	30,210	30,210	30,969	759
Library	-	-	627	627
Total recreation and culture	30,210	30,210	31,596	1,386
Capital outlay	46,940	47,990	32,838	(15,152)
Total expenditures	782,700	782,700	793,111	10,411
Excess of revenues over expenditures	-	-	8,725	8,725
Fund balance - beginning of year	464,575	464,575	464,575	-
Fund balance - end of year	<u>\$ 464,575</u>	<u>\$ 464,575</u>	<u>\$ 473,300</u>	<u>\$ 8,725</u>

See Accompanying Notes to Financial Statements

Village of Schoolcraft
Required Supplemental Information
Budgetary Comparison Schedule
Major Street
For the Year Ended February 28, 2007

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
State revenue sharing	\$ 100,390	\$ 100,390	\$ 96,437	\$ (3,953)
Interest income	7,000	7,000	20,395	13,395
Transfers in	32,766	32,766	-	(32,766)
Total revenues	140,156	140,156	116,832	(23,324)
Expenditures				
Current				
Public works	115,060	122,760	122,639	(121)
Transfers out	25,096	17,396	17,396	-
Total expenditures	140,156	140,156	140,035	(121)
Excess (deficiency) of revenues over expenditures	-	-	(23,203)	(23,203)
Fund balance - beginning of year	502,361	502,361	502,361	-
Fund balance - end of year	\$ 502,361	\$ 502,361	\$ 479,158	\$ (23,203)

Village of Schoolcraft
Required Supplemental Information
Budgetary Comparison Schedule
Local Street
For the Year Ended February 28, 2007

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Revenues				
State revenue sharing	\$ 31,580	\$ 31,580	\$ 30,338	\$ (1,242)
Interest income	1,200	1,200	1,922	722
Transfers in	48,680	48,680	17,396	(31,284)
 Total revenues	 81,460	 81,460	 49,656	 (31,804)
Expenditures				
Current				
Public works	81,460	81,460	69,689	(11,771)
 Total expenditures	 81,460	 81,460	 69,689	 (11,771)
 Excess (deficiency) of revenues over expenditures	 -	 -	 (20,033)	 (20,033)
 Fund balance - beginning of year	 94,181	 94,181	 94,181	 -
 Fund balance - end of year	 <u>\$ 94,181</u>	 <u>\$ 94,181</u>	 <u>\$ 74,148</u>	 <u>\$ (20,033)</u>

Village of Schoolcraft
Required Supplemental Information
Budgetary Comparison Schedule
Library
For the Year Ended February 28, 2007

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Revenues				
Taxes	\$ 110,000	\$ 110,000	\$ 127,212	\$ 17,212
Other state grants	2,000	2,000	2,789	789
Charges for services	900	900	1,172	272
Fines and forfeitures	9,900	9,900	13,731	3,831
Interest income	2,950	2,950	7,818	4,868
Other revenue	1,700	1,700	2,969	1,269
Total revenues	127,450	127,450	155,691	28,241
Expenditures				
Current				
Community and economic development	119,838	119,838	118,062	(1,776)
Total expenditures	119,838	119,838	118,062	(1,776)
Excess of revenues over expenditures	7,612	7,612	37,629	30,017
Fund balance - beginning of year	252,728	252,728	252,728	-
Fund balance - end of year	\$ 260,340	\$ 260,340	\$ 290,357	\$ 30,017

Village of Schoolcraft
Other Supplemental Information
Component Unit - Downtown Development Authority
Budgetary Comparison Schedule
For the Year Ended February 28, 2007

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Taxes	\$ 6,800	\$ 6,800	\$ 6,569	\$ (231)
Federal grants	-	-	35,000	35,000
Interest income	90	90	1,793	1,703
Other revenue	<u>10,000</u>	<u>10,000</u>	<u>26,750</u>	<u>16,750</u>
 Total revenues	 <u>16,890</u>	 <u>16,890</u>	 <u>70,112</u>	 <u>53,222</u>
Expenditures				
Current				
Community and economic development	<u>16,890</u>	<u>16,890</u>	<u>9,113</u>	<u>(7,777)</u>
 Excess of revenues over expenditures	 -	 -	 60,999	 60,999
 Fund balance - beginning of year	 <u>25,467</u>	 <u>25,467</u>	 <u>25,467</u>	 <u>-</u>
 Fund balance - end of year	 <u>\$ 25,467</u>	 <u>\$ 25,467</u>	 <u>\$ 86,466</u>	 <u>\$ 60,999</u>

Village of Schoolcraft
Component Unit - Downtown Development Authority
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended February 28, 2007

Net change in fund balances - Total governmental funds	\$ 60,999
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Total change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense	(180)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.

Property taxes	<u>(5,224)</u>
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Change in net assets of governmental activities	<u>\$ 55,595</u>
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Village of Schoolcraft
Other Supplemental Information
Schedule of Indebtedness
February 28, 2007

Description	Interest Rate	Date of Maturity	Amount of Annual Maturity	Total
Governmental Activities				
Installment Purchase Agreement	N/A	01/31/08	7,680	7,680
Date of agreement: 02-06-06	N/A	01/31/09	3,840	3,840
Amount of agreement: \$30,720	N/A	01/31/10	3,840	3,840
	N/A	01/31/11	3,840	3,840
	N/A	01/31/12	3,840	3,840
	N/A	01/31/13	3,840	3,840
Total governmental activities				<u>26,880</u>
Business-type Activities				
Installment Purchase Agreement	4.35%	02/24/08	44,707	44,707
Date of agreement: 05-24-05	4.35%	02/24/09	46,691	46,691
Amount of agreement: \$507,694	4.35%	02/24/10	48,763	48,763
	4.35%	02/24/11	50,926	50,926
	4.35%	02/24/12	53,186	53,186
	4.35%	02/24/13	55,547	55,547
	4.35%	02/24/14	58,012	58,012
	4.35%	02/24/15	60,586	60,586
	4.35%	05/24/15	15,562	15,562
Total business-type activities				<u>433,980</u>
Total indebtedness				<u>\$ 460,860</u>

May 21, 2007

Members of the Village Council
Village of Schoolcraft, Michigan

In planning and performing our audit of the financial statements of the Village of Schoolcraft as of and for the year ended February 28, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Village of Schoolcraft's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weakness. However, as discussed below, we identified certain deficiencies in internal control that we consider to be control deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be control deficiencies:

Documentation of Internal Controls

As part of our audit planning procedures, we are required to obtain an understanding of internal control of the Village. Part of the internal control process is the communication of information, including the communication of how internal controls are designed and operating. During our audit planning procedures we noted that documentation of internal control policies and procedures was incomplete. We recommend that the Village completely document and disseminate all internal control policies and procedures in one document. This ensures that all employees understand what their responsibilities in internal control are. In addition, it ensures continuity of internal control procedures in the unfortunate event of employee turnover or unexpected absence. Documentation should not only indicate the flow of documents but also what internal control procedures are performed by each employee and what documentation is required to indicate a procedure was completed. The monitoring process should also be documented in this procedures manual, including who is responsible for monitoring, the minimum monitoring which must be done, and what documentation is required to indicate monitoring was performed.

Financial Statement Preparation Controls

In conjunction with our audit, we have been contracted to prepare the financial statements and related disclosures based on the information provided to us by Management. We would like to stress that this service is allowable under AICPA ethics guidelines and may be the most efficient and effective method for preparation of the Village's financial statements. However, if at any point in the audit we as auditors are part of the Village's control system for producing reliable financial statements, auditing standards indicate that the Village has a control deficiency. The Village is also responsible for providing us with the information needed to reconcile the fund financial statements to the government-wide financial statements, which includes capital asset additions.

We consider the following deficiency to be a significant deficiency in internal control:

Reconciliations

As part of the internal control process, accounts should be reconciled on a timely basis. We noted that certain reconciliations were not performed on a timely basis, such as accounts payable and the due to and due from accounts. We recommend that monthly reconciliations of pertinent accounts be completed prior to the end of the following month. In addition we recommend that all reconciliations be reviewed by someone who is not involved in the reconciliation process. This review should be documented with initialing and dating of the reconciliation. The reconciliation process helps to detect any errors or frauds that may have occurred within an account. If the time commitment necessary to reconcile all pertinent accounts on a monthly basis is greater than the Village can afford to expend, we would recommend reconciling all pertinent accounts on a quarterly basis or at a minimum, on an annual basis.

We have also noted various items we feel could improve your internal controls or operating efficiencies. These items are not considered significant deficiencies or material weaknesses but are presented for your consideration.

Prior Year Recommendations:

Approval for Opening and Closing of Accounts

During the 2005/2006 audit, it was discovered that a certificate of deposit was closed with the Kalamazoo County State Bank without Board approval.

Suggestion: We suggest the Village ensure the Board approves and documents all opening and closing of accounts.

Current status: A checking account was opened at Chase Bank during the 2006/2007 fiscal year. Per our review of the board minutes, no approval was noted.

Current Year Recommendations:

Timeliness of Deposits for Schoolcraft Community Library

During our testing completed for cash receipts, we noted that the Library makes deposits into the checking account only on a monthly basis. To ensure the safekeeping of checks received by

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Village of Schoolcraft, Michigan
May 21, 2007

the Library, we recommend that the Library makes deposits on a weekly basis or establishes a dollar threshold to determine when a deposit should be made.

This communication is intended solely for the information and use of management, Members of the Village Council, others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Yeo & Yeo, P.C.

Kalamazoo, Michigan
May 21, 2007